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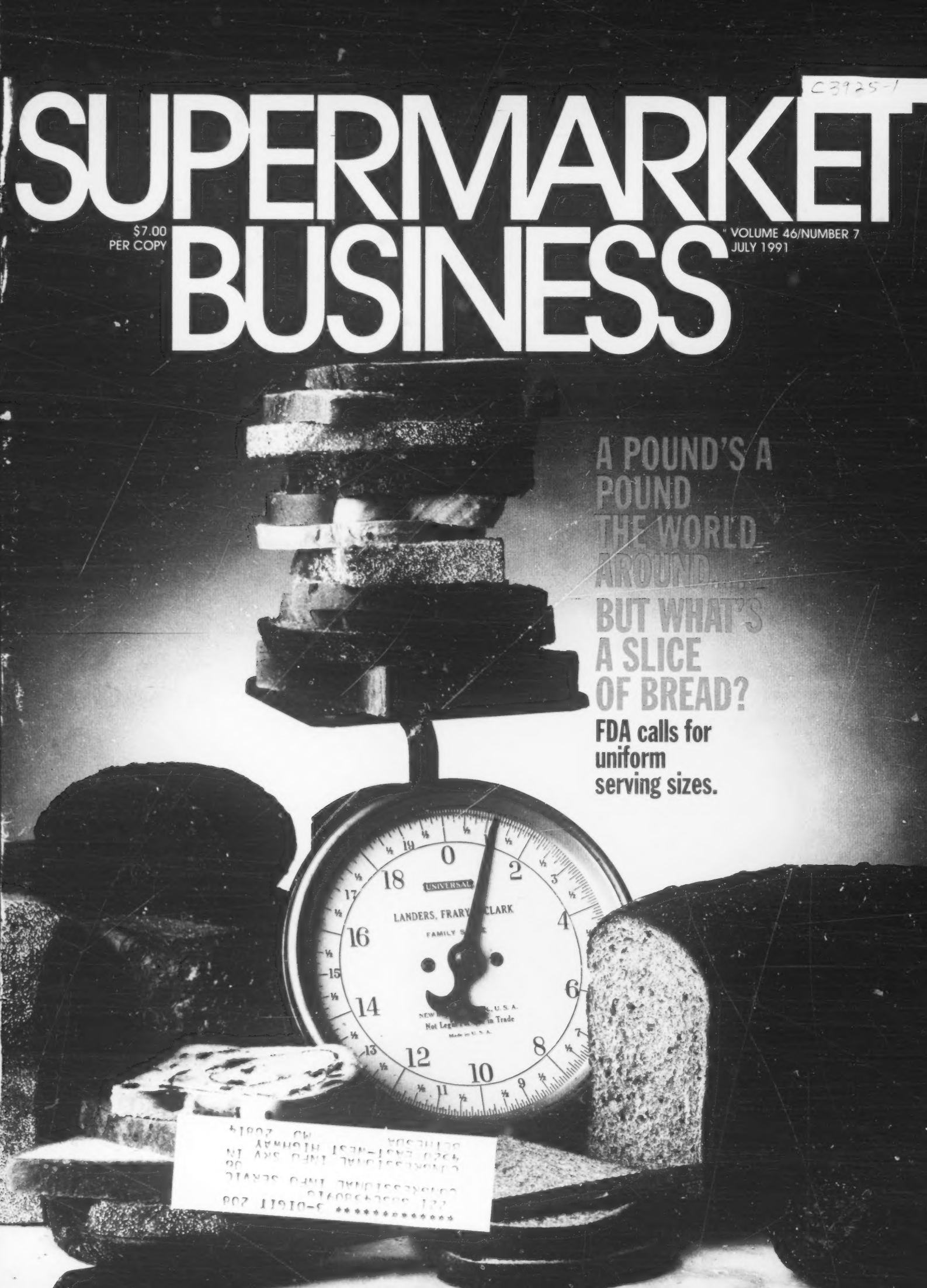

A POUND'S A POUND THE WORLD AROUND... BUT WHAT'S A SLICE OF BREAD?

FDA calls for uniform serving sizes.

SUPERMARKET BUSINESS

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A POUND'S A POUND THE WORLD AROUND ... BUT WHAT'S A SLICE OF BREAD? MIKE DUFF **25**

The FDA has proposed that serving sizes be standardized. Many in the food industry think this makes sense. But the powerful Grocery Manufacturers of America begs to differ.

PLAYING TAG WITH THE SHOPLIFTER DAVID LITWAK **34**

Technology may have finally outsmarted the shoplifter. Electronic Article Surveillance systems, now available for use in supermarkets, have taken a big bite out of crime.

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Economists will tell you that sales of food prepared outside the home will decline during a recession. After reading our exclusive food-service review, your response might be: What recession? Despite the economic hard times, the sales of take-out and in-store-consumed foods soared to a new record in 1990.

BUILDING GOODWILL BY ADDING A TOUCH OF CLASS **65**
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Opening an instore cooking school will add to your operating costs, but according to retailers who have tried it, there is no better way to build goodwill and future business.

PREPARING FOOD ELAINE READER **69**

The best bet for a light, uncomplicated salad is pasta as perfect as a summer day.

NONFOODS BUSINESS

MAKING THE SWITCH TO OTC MIKE DUFF **77**

When the patent on a prescription drug product runs out, manufacturers scramble to produce an over-the-counter version of the drug. When marketed correctly, these products can mean big profits for supermarkets.

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THE PYRAMID OF GOOD EATING (JUST TURN IT OVER)

By Ken Partch, Editor-in-Chief

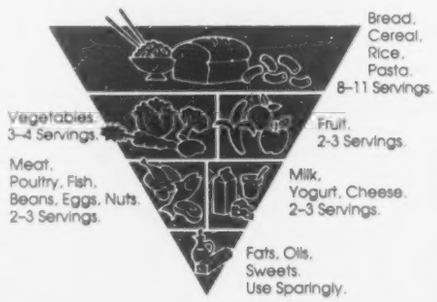
Periods of active consumerism, it is sometimes theorized, come in thirty-year cycles. I don't know if it has to do with the movement of the stars, the planets, or with some other celestial event, but it does seem that the conditions that led to Upton Sinclair's *The Jungle* and then to the Pure Food and Drugs Act of 1906, returned in the 1930s, then in the '60s, and ... who knows?

Perhaps it is some uncontrollable and pre-ordained phenomena that produce a Dr. David Kessler of FDA, and a Dr. C. Everett Koop, the former surgeon general, in almost the same period. If it is, we can expect the '90s to become interesting times. Manly Molpus, of the Grocery Manufacturers of America can expect to keep well occupied, and to be assured of an attentive membership.

It was in the '60s, you may recall, that rampaging consumerism produced picketing housewives at supermarkets and at supermarket industry meetings, while industry spokesmen became regular talk show celebrities. As a veteran of the Sizzling Sixties (with even a brief stint at GMA), I hereby make myself available to the talk show circuit (we now have a cable network of talk shows) for first-hand background briefings on consumerism activities, not unlike the retired generals at the Desert Storm news media gatherings. I can bring meaning and perspective to what may often seem like chaotic, disorganized dementia. Make no mistake about it, with the right ingredients, the right motivators and the right adversaries, consumerism can turn into a Roman circus.

And so it could be, with the onset of nutrition labeling, that the catalyst for the '90s blaze of consumerism is ignited. If you have ever been involved with the firebrands of politically correct nutritionism, you know that this is a subject not to be taken lightly. As a social issue, correct nutrition has the potential to be as volatile as nuclear energy or insecticide residues.

Pity the poor Department of Agriculture. Always wanting to be on the side of consumers and the angels, it constantly gets tangled in its own promotional and regulatory underpinnings. Unlike the Food and Drug Administration or the Environmental Protection Agency, it can't just say: "Stop doing that!" The minute it issues a regulatory decree or a consumer affairs dictum, it runs afoul of one of its primary responsibilities (in the eyes of agriculture)—that it is also the promoter of American agriculture, all agriculture, not the least of which are producers of red meat and dairy products.


Bread, Cereal, Rice, Pasta. 8–11 Servings.
Vegetables. 3–4 Servings.
Fruit. 2–3 Servings.
Meat, Poultry, Fish, Beans, Eggs, Nuts. 2–3 Servings.
Milk, Yogurt, Cheese. 2–3 Servings.
Fats, Oils, Sweets. Use Sparingly.

It has been a good twenty years since that beautiful clover leaf, depicting the Basic Four food groups for healthy eating habits, was quietly shelved. At that time, nasty cholesterol clogging of arteries was just beginning to be accepted by the medical profession and nutritionists as connected to diet and therefore life-threatening. The Basic Four, and the suggested servings, if taken literally, they said, would make Americans even fatter and more unhealthy than they already were.

Now, the USDA Pyramid of Good Eating has been attacked as confusing to children. Things at the top of the pyramid, we're told, we should eat less of than things at the bottom. But children think things at the top of a pyramid are better than things at the bottom.

It so happens that the beef industry and the dairy industry don't particularly like it that their end of the pyramid is narrower than the bottom and has fewer servings. They have made their feelings known. After spending umpteen millions of dollars on advertising campaigns to influence consumers, they do not take kindly to the federal government advising their customers to go easy on their products.

What to do? USDA has withdrawn the pyramid for further study. In the land of official obfuscation, that usually translates into, "Let it gather dust in the archives of the Smithsonian until everybody forgets about it."

But we have a solution. Don't abandon the Pyramid of Good Eating. Just turn it upside down. Call it the Wedge of Good Eating. Now, the good things are at the top and there's more of them.

Or ... how about a dart board target? High servings (and high scores) are on the outer rings. All dart players know that. USDA could send out The Dart Board of Good Eating to all the schools of America to help teach good nutrition. We could allow a bonus of double or triple coupons in the center. That would be a supermarket option, of course. The more I think about it, the more I think we have a winner here. ■

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PREPARED FOODS HOLDS UP WELL IN FOURTH ANNUAL OPERATIONS REVIEW

Supermarket foodservice departments continued to grow despite economic pressures during the past year. How well are these operations suited to today's spending environment?

BY DAVID LITWAK AND JANET TORRES CEPEDA

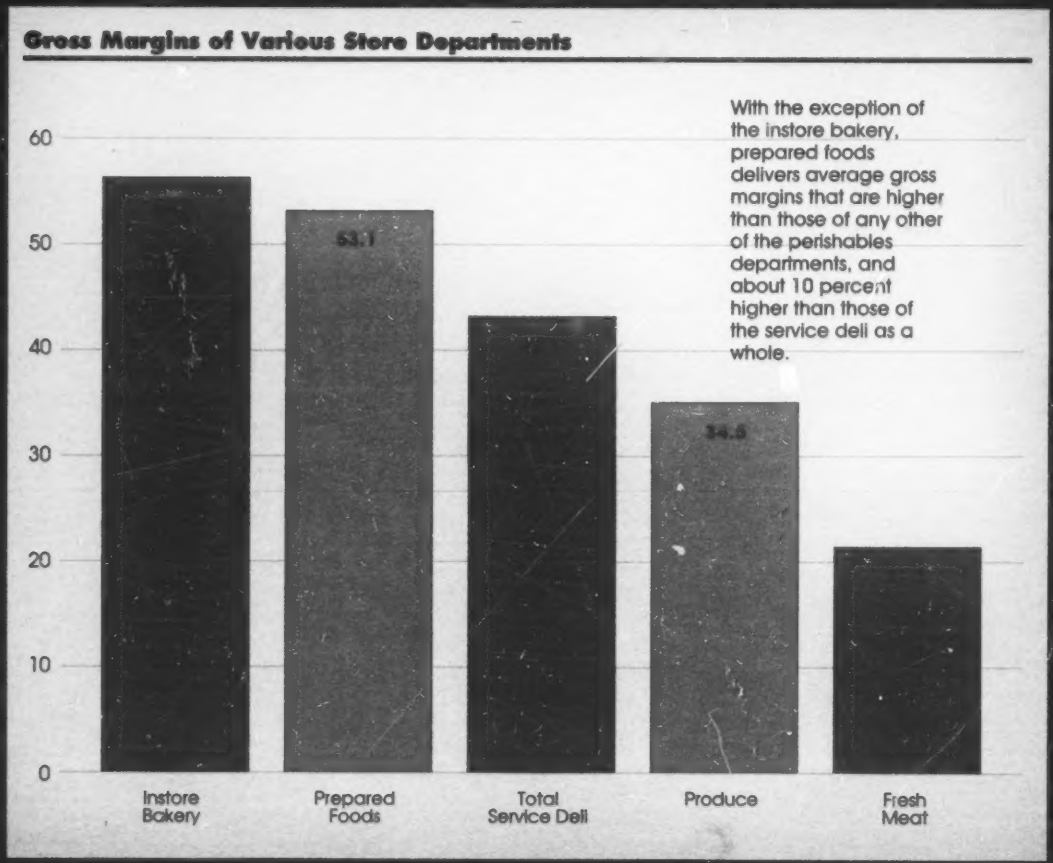
■ When the economy takes a nosedive, the sale of food that is prepared outside the home will drop as well. That's a basic economic truth, as predictable as the law of gravity, right?

Well ... not quite. While fast food outlets and sit-down restaurants had a miserable year in 1990, the sale of prepared foods in supermarkets did not miss a beat. In fact, sales of take-out and instore-consumed foods increased last year by 22 percent over 1989's record figure, climbing from $3.88 billion to $4.71 billion.

With the economy in turmoil and fears of recession a daily concern for shoppers in 1990, how did the supermarket industry manage to do so well in the foodservice area?

The answer is fairly simple: Customers continued to demand the convenience of prepared foods ... and the industry made it available to them. In 1990, consumers demanded that prepared foods be convenient, nutritious and reasonably priced. These components had never before been so equally important to the consumer when making decisions about purchasing food. The supermarket industry, happily, was able to deliver all three elements in their foodservice offerings.

It is true that some con-


Gross Margins of Various Store Departments
With the exception of the instore bakery, prepared foods delivers average gross margins that are higher than those of any other of the perishables departments, and about 10 percent higher than those of the service deli as a whole.
60
50
40
30
20
10
0
53.1
34.5
Instore Bakery
Prepared Foods
Total Service Deli
Produce
Fresh Meat

Food service

PREPARED FOODS CENSUS

Almost all (90%) of supermarkets with service delis sell prepared foods, bringing the total number of units with prepared foods up to 18,877. Most supermarkets merchandise both hot and cold prepared foods in their delis and adjacent cases.

Sales of prepared foods through all these units reached the $4.7 billion mark in 1990. This was an increase of 22% over 1989's figure, despite hard economic climates in many regions of the country. On a weekly basis, average per store sales fell just shy of $4,800.

With the exception of the instore bakery, prepared foods delivers average gross margins that are higher than those of any other of the perishables departments, and about 10 percent higher than those of the service deli as a whole.

The 2.7% of total store sales that the average prepared foods operation accounts for contributes an average of 5.5% of the total store profits, plus many ancillary benefits to the competitiveness of the rest of the store.

Prepared Foods Sections

	Total Units With Instore Delis Selling	Percent of Number of Supermarkets Selling
Any prepared foods (hot or cold)	**18,877**	**90%**
Hot foods	**16,990**	**81**
Refrigerated prepared foods	**16,570**	**79**

7% of these stores started selling prepared foods in 1990.

Sales & Profits

Prepared Foods Share of Total Store Sales

Mean **2.7%** Median **2.2%**

Contribution of Prepared Foods to Store Profits

Mean **5.5%** Median **5.7%**

Annual Sales 1990

Prepared Foods **$4.71 Billion** Up **22%**

Average Weekly Sales

Mean **$4,798** Median **$4,490**

Gross Margin	
$2,001 - $3,000	**4 %**
$3,001 - $4,000	**52**
$4,001 - $5,000	**39**
$5,001 & over	**56**

Average Gross Margin of Prepared Foods

Mean **53.1%** Median **52.5%**

Gross Margin	
Less than 40%	**3 %**
40 – 50	**21**
51 – 55	**17**
56 – 59	**56**
60 & over	**3**

Despite the economic turbulence that characterized a large portion of 1990, consumers still sought out the convenience of prepared foods.

sumers, with their incomes limited, turned away from prepared food last year, but greater numbers of consumers, because they were working longer hours than ever before, relied heavily on the convenience of prepared foods.

The percentage of supermarkets with service delis offering prepared foods rose to 90 percent last year. This, coupled, with an increase in the number of supermarkets containing a service deli, increased the total number of supermarkets offering prepared foods to 18,877.

Roughly 62 percent of all supermarkets in the country now offer prepared foods. Of the 18,877 stores that carry prepared foods, 16,990 sell hot foods, and 16,570 sell refrigerated prepared foods. Obviously, most supermarkets sell a variety of hot and cold foods.

If the availability and demand for prepared foods increased supermarket sales last year, then why did so many fast-food and restaurant chains have such a difficult time?

While there is no simple answer to this question, the most logical explanation might be that supermarkets are better positioned to offer consumers what they currently demand: convenience, nutrition and price.

Let's compare fast-food outlets and supermarkets and see how they stack up in terms of convenience, nutrition and price.

CONVENIENCE: In some ways, fast food is more convenient and in other ways the supermarket is more convenient. For example, no outlet is more convenient than a fast-food shop if all you want to do is pick up the food and get out, provided that the outlet has enough variety to cover all your needs at the time.

The supermarket becomes significantly more convenient if you need more variety, due to the greater number of prepared foods, and the availability of packaged and frozen products. It is unbeatably convenient if the customer also has to pick up other grocery or non-food items. Under these circumstances, the few minutes saved in shopping a small fast-food outlet will not be as convenient as the one-stop shopping of the supermarket.

NUTRITION: As for nutrition, or the freshness and wholesomeness of the prepared foods, in general the supermarket wins points on this component. Whether true or not in the individual case, fast-food outlets suffer when it comes to a quality image. Supermarket prepared foods, while generally not considered fancy, do enjoy a better image for freshness, quality and nutrition.

PRICE: Last year, price became a more important factor than ever before. If you have eaten in a fast-food restaurant lately, you know that fast does not mean cheap anymore. These outlets have lost their edge on price. Supermarkets, while never selling prepared foods cheaply, are still offering them at what appear to be reasonable prices for the perceived value of those products. Full-service restaurants continue to be even higher priced.

Money in the Bank

Using instore foodservice sections as a competitive tool against both other supermarkets and other foodservice outlets is certainly an advantage, but is it a profitable one?

Only after the foodservice section generates profits can the additional enhancements of competition, customer draw and additional product sales be appreciated. Considering the amount of space and labor that goes into foodservice operations, the section needs to continue to generate a substantial profit to justify its continual expansion.

On average last year, instore foodservice contributed 5.5 percent of the overall profits of the stores in which they were operating. This average varied greatly with the size and kind of foodservice operation in any individual store.

While production costs and total product costs are generally higher for prepared foods than for the majority of other food products in the store, they are able to command a high enough selling price to have one of the highest margins.

The average gross margin for prepared foods is 53.1 percent;

Food service

Last year, price became a more important factor than ever before. Supermarkets, while never selling prepared foods cheaply, are still offering these foods at what appear to the consumer to be reasonable prices.

only the instore bakery has a higher average gross margin (56.2 percent). The margin for prepared foods is a full 10 percent higher than the margin of the whole service deli (43.1 percent).

The high gross margin helps the section account for 5.5 percent of the store's profit on just an average of 2.7 percent of the store's sales.

Roughly a quarter of the sales of prepared foods go to pay for the labor that goes into making and selling those foods. The 24.8 percent labor factor in 1990 is an improvement over the 28.1 percent labor cost in 1989.

The decrease in labor costs is a factor of an increase in the amount of prepared foods that is sold through self-service (now up to 23% of the total), and a slight drop in the percent of instore staffers who are trained cooks.

Retailers believe that even more of their prepared foods will be sold through self-service in the future. Fifty-four percent indicated that their operations will be moving in the direction of self-service in the coming years.

PREPARED FOODS SALES, LABOR, PRODUCTS

The higher overall sales of prepared foods in supermarkets was enjoyed by the majority of stores selling these products last year. Seventy-three percent of the operators reported that they had higher prepared food sales in 1990, while 22% said their sales were about the same as in 1989. Only 5% reported a drop in prepared foods sales.

The labor picture improved for prepared foods production and sales in 1990. Last year 24.8% of sales went to pay for labor, while in 1989 28.1% was spent. Also the percentage of staff that are highly paid trained cooks decreased to 17.8% last year.

Chicken is the number-one prepared food item in supermarkets, followed by pizza and sandwiches. It would appear that many stores and their customers are not yet ready to upgrade to fancier kinds of entrées and main-dish salads. The popularity of these simpler items probably helps to keep the number of trained cooks needed to a minimum, because the preparation of many of these items is often systematized.

Changes in Dollar Sales of Prepared Foods

(1990 vs. 1989)

Higher	73%
No change	22
Lower	5
TOTAL	100%
Average reported increase	17.5%

How Much for Labor

(As percent of prepared foods sales)

Mean **24.8%** Median **28.6%**

Less than 15%	7%
15-24	65
25-34	19
35 and over	9
TOTAL	100%

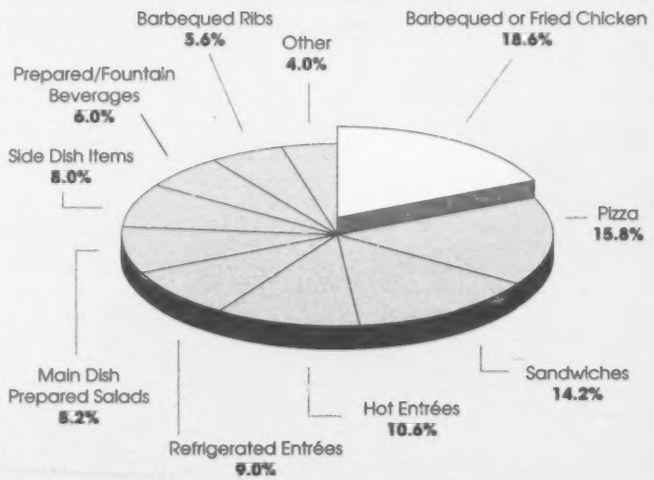
Percent of Total Prepared Foods Sales Sold Through:

Service deli	70%
Separate hot service counter	7
Self-service area	9
Refrigerated case	14
TOTAL	100%

Trained Chefs

Percent of instore staff that are trained cooks	17.8%

Portioning the Foodservice Sales Dollar



What Sells

It is no wonder that instore foodservice is giving fast food a run for its money. The most popular products on the instore menu are traditional fast-food selections.

The largest share of the prepared foods sales in supermarkets goes to barbecued and fried chicken, which accounts for 18.6 percent of sales. The next two most popular products are pizza and sandwiches, which account for 15.8 percent and 14.2 percent, respectively.

It is not until we get to the next group of products ranked by popularity that we get into the more upscale or sophisticated menu selections. Hot entrées account for 10.6 percent of sales; refrigerated entrées bring in 9.0 percent; main dish prepared salads (8.2 percent) and prepared side dishes (8.0 percent). These are what most operators and industry writers readily point to as showpiece or signature items.

As just mentioned, hot prepared foods still have sales slightly above those of refrigerated prepared foods. Expect that relationship to flip-flop in the next year or two.

When asked what kinds of

prepared foods they expected to be offering in the future, 66 percent of the operators said they would be offering more cold foods, while only 8 percent would be offering more hot foods. The remaining 26 percent saw no changes in their hot-cold product mix.

This is consistent with most of the prevailing trends in the instore foodservice industry. Retailers said that they were going more toward self-service, which cuts some labor costs and is generally more convenient for the consumers, who avoid the lines at the deli counter.

Refrigerated foods lend themselves more to self-service merchandising. Appearance and safety are also more easily controlled when merchandising cold food.

The production side of the foodservice operation is still very much an out-of-house affair. Seventy-two percent of the prepared foods sold through supermarkets start as basic foods bought from foodservice suppliers. In some cases these basic prepared foods are finished or doctored into final products, and in many cases they are simply garnished and put in the case.

Despite a high preference for purchasing finished prepared foods, and the lower availability of trained cooks, there is a move among many in the industry toward at least some in-store production. Currently, about 24 percent of prepared foods are made instore. When asked, 50 percent of the operators said they planned to increase instore production.

This will probably place even more strain on the available labor pool of skilled foodservice workers, and put more of a burden on the instore staff to control the additional elements of food safety that come with in-store production.

As if on a parallel track, 44 percent of the retailers felt that they would be buying more prepared foods from foodservice in the future. Beyond retailers switching production methods back and forth, this indicates that many operators plan to expand their foodservice offerings and will use more than one method of production, as many now do.

The remaining 6 percent of the retailers questioned said they would rely more on a central company kitchen to produce prepared foods in the future. Currently, only about 3 percent of the nation's supermarket foodservice products are centrally produced, while less than one percent comes from local restaurants or caterers.

For those products that are produced instore, the channel of distribution of ingredients and supplies becomes an important factor. Supermarkets appear to have broken through the traditional "wall" that separated foodservice distributors from grocery buyers.

In 1990, 81 percent of the retailers cited foodservice dis-

Retailers are going more toward self-service, which cuts some labor costs and is generally more convenient for the consumer, who can avoid lines at the deli counter.

PREPARED FOODS MERCHANDISING & PRODUCTION

Cold seems to once again be the wave of the future. Two-thirds of the retailers reported that they expected their foodservice sections to be offering more refrigerated foods in the future. Only 8% said that they would be increasing the number of hot items.

Both service prepared foods and self-service prepared foods will be merchandised in the future, according to retailers. Refrigerated foods make the transition to more self-service somewhat easier to handle for most operators.

Instore cooking will increase in many cases, but the majority of prepared food items will continue to be bought already prepared from foodservice suppliers. The foodservice distributor will continue to be the supplier of choice for all ingredients and foodservice supplies.

In Which Direction Will Your Prepared Food Sections Go in the Future

More service	46%
More self-service	54
TOTAL	100%

Kinds of Prepared-Foods Products You Expect in the Future

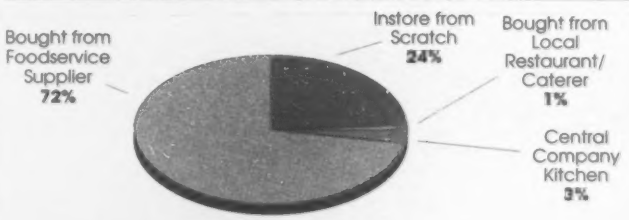
	Entrée	Side Dishes
More hot foods	8%	5%
More refrigerated foods	66	72
No change	26	23

*Includes multiple responses

In Which Direction Do You See Your Foodservice Preparation Going in the Future

More instore	50%
More central kitchen	6
More food service supplier	44
TOTAL	100%

How Food Products Are Produced


Bought from Foodservice Supplier 72%
Instore from Scratch 24%
Bought from Local Restaurant/ Caterer 1%
Central Company Kitchen 3%

Where Foodservice Products and Ingredients Are Bought

Food service

tributors as the major source of their ingredients and supplies for their prepared foods operations, and only 6 percent received the major bulk of their ingredients from their grocery wholesaler.

The other 13 percent were self-providers, supplying their foodservice needs from their store inventories. This may be the way the consumer perceives supermarkets preparing food, but it is usually a more costly method for the retailer.

Hungry? Well, Sit Right Down!

Supermarkets may never replace the roadside diner, or the small bistro, or even the fast-food burger joint as the place to dine away from home, but they are steadily increasing the availability of instore eating for their customers. Last year the number of supermarkets with eating areas, snack bars and restaurants increased slightly.

More than 50 percent of all supermarkets, and 74 percent of supermarkets having a service deli, have a place where customers can sit down and consume the products they have bought.

This makes the 15,521 supermarkets that have eating areas mini eat-in foodservice purveyors. It's almost like having an informal snack bar on the premises without actually having one.

In terms of snack bars, 2,517 stores now actually have one. While not exactly becoming a "hot" department for inclusion in stores, it means that 12 percent of all stores with delis have a snack bar.

Snack bars serve to keep customers in the store who may feel inclined to leave because they are hungry. It is also convenient for employees and can be a profit center if done properly.

The average gross margin for supermarket snack bars is 52.3 percent. Despite the high margin, many retailers complain that snack bars don't pull their own weight. Often too large, snack bars can be empty during off hours and crowded during mealtimes, putting an emphasis on the proper management of the hourly allotment of resources to the area.

Sit-down restaurants and cafeterias are still under-represented in supermarkets, with only 461 in operation. The jump from snack bar to full restaurant or cafeteria is a big one for most retailers. Justifying a full-scale foodservice operation requires the right levels of surrounding population, area businesses, competition, and available space and labor.

If conditions are advantageous, a supermarket restaurant can do quite well, bringing in margins of more than 57 percent. The space needed for such an operation is large—on average a restaurant or cafeteria in a supermarket occupies almost 1,400 sq. ft.

In this review, we have many times expressed the number of snack bars, or stores offering hot entrées, as a percentage of the total number of stores with service delis. Tying these numbers to the number of service delis makes sense because instore foodservice is almost always tied into the deli operation.

Ninety percent of snack bars located in supermarkets are managed by the deli department. When it comes to off-premises catering, 95 percent are managed through the deli, while 78 percent of supermarket restaurants and cafeterias are also managed by the service deli. Even if there is a corporate foodservice director, at store level most of the operation is combined with the de

In 1990, the combination of deli and instore foodservice continued to be a powerful part of the competitive strategy of most supermarkets. Foodservice, especially in the form of prepared foods, still managed to grow despite economic hard times. Rather than becoming a drain on store profits during the recession, foodservice operations seem to have helped stabilize the influence of the supermarket. ■

Supermarkets may never replace the roadside diner, but they are steadily increasing the availability of instore eating for their customers.

EATING AREAS

Most retailers seem to be willing to give their customers a place to sit down to eat foods they have purchased, because 15,521 stores now have these eating areas. Retailers are much more reluctant to put in snack bars or restaurants, with only 2,517 snack bars in operation and 461 restaurants/cafeterias. Eating facilities, such as snack bars and restaurants, while not for everyone, can be profitable. Their gross margins are usually in the mid to upper 50s range and 92% of the operators who have them do consider them to be a profit center as well as an image/traffic builder.

Retailers are promoting their various instore foodservice offerings in much the same way that they promote their delis. Newspapers are the medium of choice for instore promotion, with store circulars, sampling and POP materials also used by the majority of operators.

Stores With Eating Areas

	Number of Supermarkets	Percent of Stores with Delis Having Each Section
Snack bars	2,517	12%
Sit-down restaurants/cafés	461	2.1
Sit-down eating areas	15,521	74
Drive-thru areas		<1%

Average Size of Sit-Down Restaurants/Cafeterias

1,390 sq. ft.

Average Gross Margins of Eating Sections

Snack bars	52.3%
Restaurants/cafeterias	57.5%
Off-Premises catering	61.8%

Who Manages the Sections

	By Deli Dept	As Separate Section
Snack bars	100%	—
Restaurant/cafeteria	78	22
Off-premises catering	95	5

Do You Consider Instore Eating Facilities:

Image/trraffic builders	8%
Profit centers	0
Both	92
TOTAL	100%

Advertising and Promotion Instore Foodservice